RICHARD RUSSELL'S DOW THEORY LETTERS INCORPORATED

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WORLDWIDE: Two trends are sweeping the globe. The first is unemployment, brought on by (1) increased use of computers and robotics, and by (2) corporations seeking to cut expenses and thereby improve their bottom lines. The second global trend is reflation, and I mean world reflation. In an effort to battle the forces of deflation and unemployment, almost all nations (with the exception of China and the Asian "Tigers") are struggling to revive their economies via low interest rates, expanding money supplies and reflation.

WORLD MARKETS: The stock markets of the world are in ferment, but the key to the world stock market picture is Wall Street. The capitalization of the US stock market dwarfs all other stock markets with the exception of Japan's. If the bull market in the US continues in force, I would think that the global bull markets will do the same. However, if the bull market on Wall Street dies, then the markets of the world will fall in sympathy.

U.S. PICTURE: I can't remember a time when so many diverse and contrary opinions were being put forth regarding the overall trend of the stock market. My friends, Joe Granville, Bob Prechter and Gary Shilling, all believe the bull market is over -- kaput. Veteran analyst and fund-king Marty Zweig is nervous but undecided. Current reigning guru Elaine Garzarelli believes that the bull still lives as does well-known analyst Gail Dudak (as per her recent interview in *Barron's*).

Investor's Intelligence informs us that there are now more bearish advisors than bullish, and history tells us that bear markets don't usually start when the majority of advisors are bearish. But we also know that the public is up to its neck in mutual funds (an incredible 4,000 funds), and you have to wonder how long the public is fated to hang on to its profits?

From a Dow Theory standpoint, the market action during March has been both sloppy and confusing. Why do I say that? Because on March 1 the Dow hit a low of 3809.23 and Transports hit a comparable low on March 3 of 1729.87. From there the D-J Industrials rallied, hitting a recovery peak of 3895.65 on March 18 (see page 1 chart).

But the Transports, instead of joining in the rally, remained extremely weak, with that Average simply continuing to zig-zag down to lower levels. So what we saw was a weak recovery on the part of the Industrials and literally no recovery at all in the Transports.

In previous Letters I pointed to the importance of the **3809.23** level for Industrials (the Transports had already broken all their previous 1994 levels). Then, last Friday (March 25) the Industrials smashed below the 3809.23 level, leaving me to decide whether this break constituted a primary bear market signal under Dow Theory or simply an extension of the secondary reaction.

Let me confess that at this point I have no definitive answer to that question. But I might also say that as far as my subscribers are concerned, the answer is academic. Academic because I have repeatedly advised my subscribers to be out of common stocks, and I said that based on the thesis that stocks were extremely overvalued on a yield basis, on a price-earning basis and on a book value basis (and remember, the essence of Dow Theory is an understanding of VALUES).

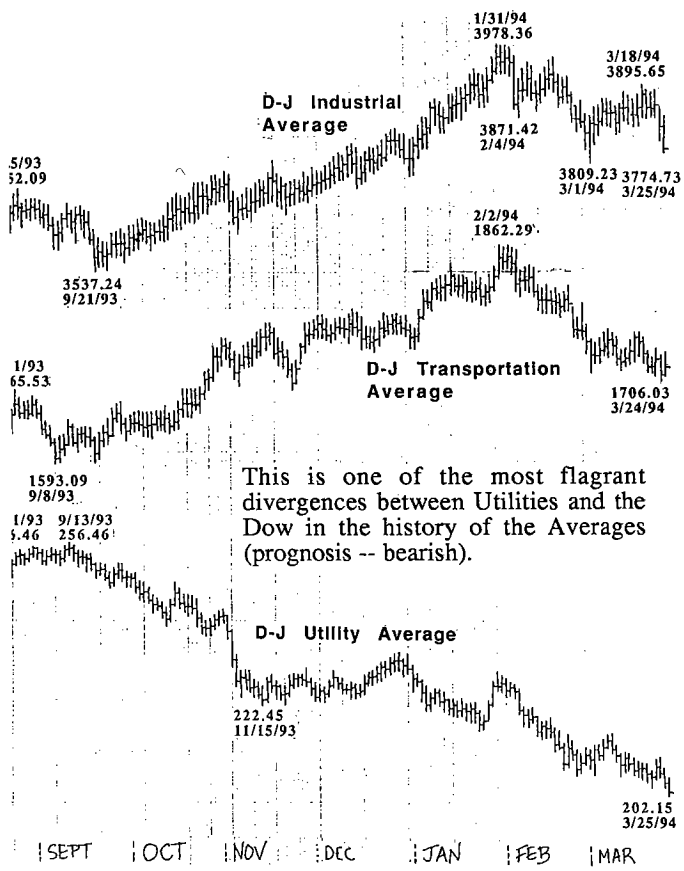
Mar. 18 DJIA 3895.65; PTI 4091; A-D Ratio -2.54
Mar. 25 DJIA 3774.73; PTI 4073; A-D Ratio -3.28
Dow Yield: 3.86%; Dow Price/Earnings: 25.9
Dow 200-day MA: 3691; Dow 30-day MA: 3871
Dow Times Book Value: 3.29; PTI 89-day MA: 4054
Percentage of Undervalued Blue-chips: 10%
Dow Low Risk Buy Index: +141; Gold-PTI: 1077
Gold 40-week MA: 378

One development which has me tilting toward the primary bear market side is the ominous action of the D-J Utility Average. This Average recorded its high of 256.46 on September 13. It has dropped steadily for the past six months and by last Friday (Mar. 25) the Utility Average had sunk to 202.15. This means that the Utility Average has lost **21%** of its peak value.

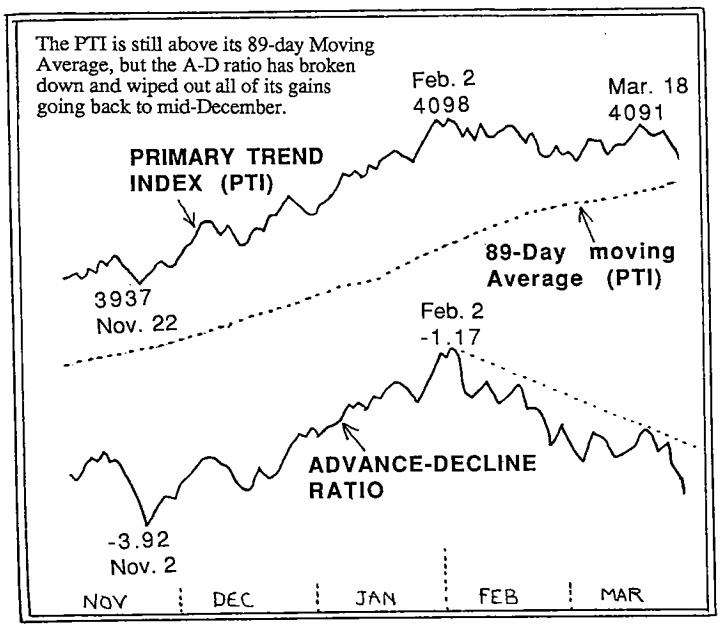
This has resulted in the loss of billions of dollars in values. But aside from the obvious pain of these losses, I have to wonder what the decline of the utilities really means. I don't think you can blame the decline simply on a tougher stance on the part of the regulators. I don't think the utilities (at this point) are simply discounting lower electricity and gas use on the part of business or consumers.

Could the utilities be discounting some type of serious competition that we are not yet aware of? Or are the interest-rate sensitive utilities discounting a major rise in interest rates? Only time will tell. However, the ominous part of the picture is this -- in the past when the Utility Average has lost 20% or more of its value, that action (often with a multi-month lead time) has proved to be the signal for a forthcoming primary bear market.

Confirming the bearish action of utilities, the bonds have also come down hard. I've said this before, but I'll repeat it for new



This is one of the most flagrant divergences between Utilities and the Dow in the history of the Averages (prognosis -- bearish).



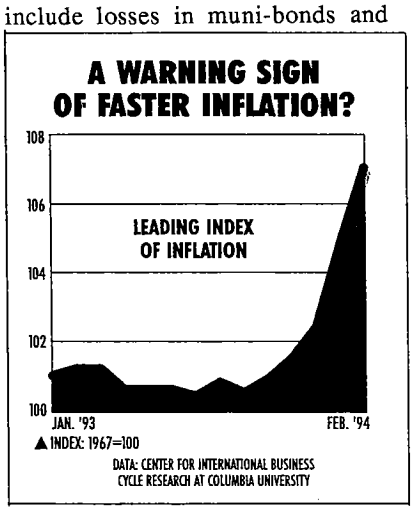
subscribers -- there's nothing more bearish for the stock market than a joint trend of declining utilities and bonds. Unfortunately, that's what we've been experiencing here in 1994.

Let's turn to my Primary Trend Index (PTI). The PTI hit a high of 4098 on Feb. 2 (see chart above). A decline knocked it down to 4068 (Mar. 3), and a second rally took it back to a lower peak of 4091 (Mar. 18). As this is written, the PTI is 18 points above its critical 89-day moving average. To turn decisively bearish, I would want the PTI to break below its MA and continue down from there (see chart above for comments on the advance-decline ratio).

OMINOUS: The market's been oversold for many days. When a bull market is oversold you can expect a rally, but when the bear takes over, the market can remain oversold for days or even weeks on end. Is this the kind of action (bearish) that we're seeing now? We should know shortly (honestly, I don't like the action so far).

One suspicion I've had is that when the Averages finally turn down in a true primary bear market, they're just going to continue relentlessly down without producing much in the way of rallies (a mirror image of the way the market advanced during 1990-94).

Sundry Items: The rumor that won't die -- Greenspan will quit the Fed . . . The loss nobody wants to talk about -- according to Telerate, the losses in T-bond and notes from Feb. 3 (when the Fed raised the Fed Funds rate) to the recent low amounted to $58.7 billion, and that does not include losses in muni-bonds and corporate bonds.. . . One has to wonder whether the Fed's (and everybody else's) insistence that "there's no inflation" is wishful thinking -- or whether they really believe that there's no inflation. At any rate, here's Columbia University's widely watched inflation barometer. It's telling us in no uncertain terms that inflation has been (and still is) heading UP.



Leon Cooperman, former Goldman Sachs partner, now runs the very successful Omega Fund. Here's Leon's list of 10 market danger signs that in his view are now present: (1) Stock valuations are high by historical standards. (2) Current dividend yields and earnings multiples generally mean low returns are coming. (3) Despite an astronomical flow of funds into the market from mutual funds, the market has not done very well. (4) There is a big supply of new stock. (5) The bond market is rolling over. (6) Some groups, like utilities and financial stocks, are doing badly already. (7) The market had a big drop recently on little bad news. (8) The Whitewater affair poses risks. (9) Russia is a "basket case." (10) We have seen the best news on interest rates, inflation, oil prices and the economy.

INVESTMENT POSITION: I'm tempted to put a bear in the box, but I'm going to cop-out and stay with a question mark. Before I put a bear in the box I want my PTI to break down decisively and it has not done that yet.

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As you must know by now, my investment position is simple enough -- out of common stocks and into golds. Out of bonds and into short-term money instruments. That's it.

I said "sell Hong Kong stocks" months ago, and it's just as well. The Asian stocks have been on parabolic-stilt rises, but most recently those stilts have crumbled. Once parabolic rises fall apart, it generally takes a good deal of time before a market can regroup and head higher again.

I continue to recommend the gold shares; Placer Dome, Homestake, Amer. Barrick, Pegasus, Echo Bay, Battle Mountain, Royal Oak, Newmont Mining, Newmont Gold, Horsham, Agnico-Eagle, Euro Nevada, Franco Nevada, Freeport McMoran Copper and Gold. If you don't want to pick a specific gold, buy Benham Gold Equities Index [(800)321-8321]. As far as gold itself, I like the Kruggerands. Buy 'em and put them in your bank vault.

I had one subscriber who buried 200 Kruggies in three plastic tubes in his back year. A few months later he sold his house, but disaster -- he forget to take the Krugs with him. So had to sneak back one dark night and dig up his coins. He was lucky -- nobody saw him, and the new owner didn't have a pit bull.

NOTES & QUOTES: Movie producer Aaron Russo (he produced "The Rose," "Trading Places," "Partners," etc.) stayed with us last week. I wanted to show Aaron the San Diego countryside, so Aaron and I along with two friends went on a motorcycle ride. Late in the afternoon Aaron blew a rear tire, but miraculously, he held the big Harley up. So there we were, stranded on a little-traveled country road outside of Rancho Santa Fe. One of the guys went to the local police station for help, and a burly police sergeant was kind enough to let us load the 780-pound bike on his pick-up truck. We drove to a local Harley shop where we put on a new tire. Saved by the police. Be honest, would a big city cop give you that kind of help?

* *

I took chelation treatment number 20 last week. I feel good (I do think I feel better than prior to starting), I'm a tiger (or should I say Cheetah) on the treadmill, and on a test two weeks ago my cholesterol count dropped to an incredibly low (for me) 162. The doctor was flabbergasted (I ordinarily have high cholesterol). The doc (who's a blood specialist) asked me what I was doing that was different. I told him chelation. He was puzzled, and wants to recheck my blood in a month, because he thought the low reading might be some kind of fluke. Maybe it was. I'll keep you posted.

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Have you ever asked yourself what you'd do if you suddenly inherited say $25 or $30 million? Would you change your life-style? Faye asked me that question, and I thought a while and said, "Well, I'd certainly continue writing Dow Theory Letters. But with all that money, maybe I'd buy an apartment in NYC and I guess another one in Paris. Next, I think I'd open a gourmet restaurant in La Jolla (they say every man has the fantasy of owning his own restaurant). And I'd probably move to a bigger house, a house with a huge garage where I could store about six or eight Harleys. And Faye, who loves cars (I don't), could have three or four cars

of her own." Then I thought some more, and I surprised myself. Ah, well, if that's all that unlimited money could buy, and if those are all the changes I'd make, why fantasize? Actually, I hate to travel so the apartments in NYC and Paris don't make much sense. And I already have three Harleys so do I really need a few more? All right, cancel the fantasy, I'm happy now. End of story. Oh yes, you know what I really think -- it's that the powers above give you *what you need, NOT what you want.*

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The other night I sat down and I asked myself, "Russell, why do you dislike President Clinton? I mean he's trying, isn't he?" Mmm. Here's what I came up with. We don't know yet whether our President and Hillary are crooks or not, but at this point I'm convinced that Bill Clinton is the biggest hypocrite who has ever occupied the White House. Here's a man who berated "the rich" for making all that nasty money during the '80s, and therefore the immoral rich deserve to be taxed heavily. But we now know that Bill and Hillary were as greedy as anyone else and that they grabbed all the money they could during the '80s and beyond. Bill Clinton is a man that . . . but wait, let's listen to the words of Senator James Leach, R-Iowa.

States Leach, "I have never known anyone in public life better able to put embarrassing episodes behind him than Bill Clinton." Leach then asks, "Can a president credibly ask the people to pay taxes, let alone raise them, if he refused to pay his own fair share? Can a president credibly espouse open government if he applies a hide-and-shred standard to his own actions? Can a president credibly ask teen-agers to take responsibility for their own lives if he refuses as an adult to discipline his own? Can a president credibly advance an ethic of national service if his own model is one of self-service? Can a president credibly advocate campaign reform if his own campaign has been sullied by illegal contributions from a S&L, which, with its failure, had the effect of causing deferred federal financing of a gubernatorial election? Can a president credibly lead an ethical society if he doesn't set an ethical standard himself? Can, in short, a servant of the people put himself above the people in personal and public ethics?"

What really irks me is the Clintons' high-and-mighty act -- we're so wholesome and pure, and you nasty rich people should be ashamed of yourselves for grabbing all that money during the '80s instead of paying your "fair share." Hypocrisy, what we've got is the "Hypocrisy President."

As to Whitewater, here's what Nick Guarino writes (he ran a multi-million dollar business in Arkansas): "Whitewater was a pure hustle. I wish I could show you this piece of property. It's in the middle of nowhere. Hardly anybody lives there. Nobody else ever goes there, and nobody wants to. You have to drive 50 miles to the nearest grocery store. If the Mafia wanted to do a hit, this is where they would bury the body. I can't believe Bill and Hillary Clinton ever intended this property to be developed. It was a scam right from the beginning . . . They bought the land with nothing down and then borrowed huge sums of money against it." Russell comment: Ah well, it appears that the whole sorry story will come out in the wash.

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Newsweek notes that of three lawyers brought into the White House by Hillary, one committed suicide, one resigned and the other is under investigation.

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There's terrific resentment against Clinton's outrageous retroactive tax boost. The Ninth Circuit Court of Appeals recently ruled that retroactive taxation can't pass constitutional muster if citizens have no "actual or constructive notice" of the change. Along these lines the Supreme Court has hinted that it may rethink its rubber-stamp attitude toward Congressional tax bills. And the National Taxpayers Union has challenged the Clinton retroactive tax. Now if the Taxpayers Union can only get their case to the Supreme Court!

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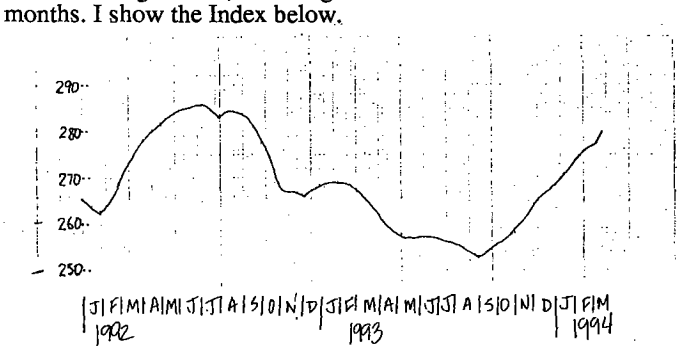
One of the benefits of having all you intelligent subscribers is that I get a heck of a lot of intelligent letters. Here are sections of a letter I received last week from LB: "Dear RR, As to your Letter 1142 query, '. . . how do you reflate the US economy while simultaneously hiding the tell-tale result?' Let me add a simple addendum -- change the CPI inflation barometer. I'm sure you've noticed, but the Labor Dept., which oversees the Bureau of Labor Statistics, suddenly discovered that the CPI was overstated by 6/10ths of a percentage point. Most probably surprised by the lack of reaction, they then discovered an additional overstatement that brought the total to an entire percentage point. Thus, the surprising news that the CPI was being overstated by 50%."

Here's another interesting letter from subscriber D.L. in Elkhart, Indiana: "Dear Mr. Russell, Re: inflation. I'm a manufacturer, and it's astounding to hear economists saying there's low or no inflation. They're using a rear view mirror. This year (year over year) I've seen (1) Corrugated 6% increase; (2) Hydrochloric acid up 32%; (3) Steel up 21% with some producers on allocation; (4) Shipping labels up 12.6%; (5) Motor Freight up 4.5%; (6) Foam up 23% to 27%; (7) Styrofoam -- expanded poly-styrene up 3.6%; (8) Wipe cloths (paper) up 7.5%; (9) Plating up 15%. You're right, the government figures are a lie. Incidentally, we discount -- pay all our bills twice each week, so people want to sell to us."

* *

We chart the CRB Raw Materials Index (scrap steel, scrap copper, tallow, rubber, tin, burlap, hides, zinc, wool tops, cotton print cloth, etc.). This Index is probably the best barometer of forthcoming inflation. The Index was at 252 last September, its latest reading is 279, meaning a rise of **10%** over the last six months. I show the Index below.



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I'm impressed by the relative strength of the big integrated oil companies, Chevron, Texaco, Exxon, Atlantic-Richfield, Royal Dutch. With the price of crude down in the dumps, it's most interesting that the stocks of the big oil companies have held up as well as they have (of course, they all have attractive dividend yields). But I wonder, is the market putting oil (often called "black gold") in the category of a tangible asset like gold? Is that why the big oil companies, with huge reserves of oil, are holding up as well as they are?

My old friend, Charles Maxwell of *C.J Bradford* (he's one of the top oil analysts in the nation) writes, "We are at a theoretical critical moment in oil pricing. But nobody in the trading or investment world seems to know or care." Charlie notes that supplies are considered ample, world inventories are slightly on the high side, OPEC appears to be disunited, and Russian exports . . . are rising owing to the collapse of Russian internal demand. Then Charlie names a number of adverse possibilities that could occur in oil supply, and he states that he puts the odds at 50% or more that one

of these adverse possibilities will occur in the next year. Charlie sums up by saying, "Thus, despite the market's lack of concern, we believe that a sharp rally in oil and oil-related stocks on the basis of unexpected events is a reasonable probability in the coming year, quite apart from the slow recovery in oil pricing and oil industry profits that we are expecting as part of a long-term workout from recent over-supply, under-demand problems." Russell comment: I fully agree. And when it comes to oil, Charlie is usually right.

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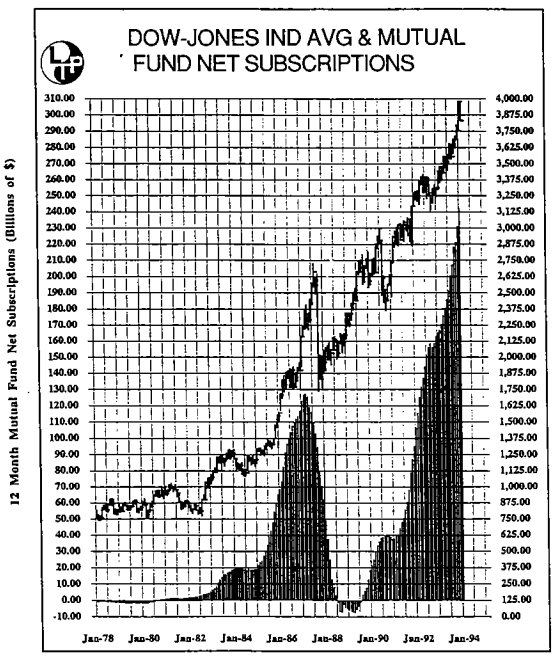
You have to be struck by this chart from Walter Stone's *Long-Term Technical Trends* (PO Box 6436, Boston, MA 02114). Here we see the incredible explosion in net subscriptions (Jan. '78 through Jan. '94) of mutual funds. Frankly, this is a very scary chart. There's an old adage which states, "Ultimately, all the stocks come back to Wall Street." If this adage holds true, there are some God-awful times ahead when the next bear market hits, and all those billions of shares come home to roost (we've received hints of that via the bond market over the last month).


DOW-JONES IND AVG & MUTUAL
FUND NET SUBSCRIPTIONS
12 Month Mutual Fund Net Subscriptions (Billions of $)
Dow-Jones Industrial Average
Jan-78 Jan-80 Jan-82 Jan-84 Jan-86 Jan-88 Jan-90 Jan-92 Jan-94

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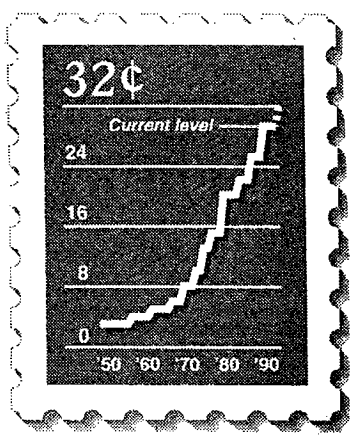
Post Office: Here we go again -- the post office lost $1.3 billion last year, so they're promising us an across-the-board 10.3% increase in postage for next year. This little stamp traces the sad story of 40 years of increases in first class mail. When I started Dow Theory Letters a first class stamp was 3 cents. Should they privatize the post office? Of course they should. My guess is that if the PO was made a private corporation, the cost of a first class letter could be cut in half. By the way, every penny the PO adds to the cost of a stamp results in almost one billion bucks more in revenue. Can you imagine what a cost-efficient private corporation could do with the PO? Ah well, electronics will ultimately spell the end for the US postal service, and then my stamp collection will be ready for a museum of ancient antiquities.



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Writes a columnist in the *Washington Post*, "America resembles a billionaire family that can't scrounge up enough cash to go to McDonald's and a movie." It's true, built-in entitlements are now eating up so much of the federal budget that every new expense (such as the California earthquake relief) entails a monumental struggle. The proportion of the federal budget that can be accounted for by discretionary spending has declined from 70% in 1963 to an estimated 36% next year. In other words, after all the entitlements, there just isn't much left over for new spending. Thus, every time Clinton dreams up a new spending plan, he must either dream up a new tax or take the money from somewhere else. The squeeze is on.

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There's a big to-do about a young American who spray-painted around Singapore and tossed paint over 18 cars. Singapore didn't see the humor in it, and the sentence is four months in jail and six mighty whacks from a wet cane, a cane wielded by a martial artist (with each whack guaranteed to draw blood and leave scars). The caning is drawing cries of outrage from some Americans. But others are saying that the kid deserves it, and six strokes with a wet bamboo cane are better than a few years in a Singapore jail. As a matter of interest, crime is virtually unknown in Singapore (where it's the death sentence if you bring in drugs; yep, they stamp the warning right on your passport).

* *

I've always felt that the tides of history are basically economic. Along these lines, economist Gary Shilling has some wise words on wars, so wise, in fact, that I wanted to repeat Gary's thoughts here *(Gary Shilling & Co.*, 500 Morris Ave., Springfield, NY 07081):

"Are wars worth it? It's true that reconciling and even rebuilding former enemies is standard American practice, at least in this century. After getting the Hun on the run in WWI, Wilson proposed a very balanced peace formula, and Hoover organized a massive relief effort for our trading partners in war-torn Europe. After WWII the Marshall Plan helped all of Europe to rebuild, even the Nazi hordes we had just defeated. American postwar occupation of Japan was extremely benevolent, and the US promoted free trade to aid Europe and Japan in rebuilding, even though their revivals reduced the pre-eminence of this nation. To be sure, we wanted strong economies in Europe and the Far East to help stave off the Soviets, but American aid was also aimed at creating markets for US exports to former enemies.

"Where does that leave those who fought and died in Vietnam and earlier wars if a few years later we're all friends, and the US is helping former foes to rebuild? Were Bill Clinton and others who avoided military service in Vietnam right in the sense that the Vietnam War gained nothing and cost so much? Was it worth risking the lives of young servicemen and women when the likelihood was that the US and Vietnam would be back on speaking terms shortly?

"Maybe the answer to this dilemma is that wars are simply irrational to begin with, and trying logically to understand them is an exercise in futility. When they are over, the concepts that induced people to fight and die are forgotten, and it's back to business as usual. So, for Americans, it's back to Vietnam, not with rifles, but with business proposals."

Russell comment: Sometimes I look back and I can't believe that after losing tens of thousands of young men in WWII, we're now friends and doing business with Germany and Japan. I felt at the time and I still do that WWII was a legitimate war for our survival. But time passes, time heals all wounds, and men have short memories. In the end, economics rule -- they always have and I guess they always will.

* *

The British introduced the modern income tax during the Napoleonic Wars. The US government levied an income tax during the Civil War with rates ranging from 3% to 5%. After the War the rates were phased out, but in 1862 the (Lord help us) IRS was born. In 1894 Congress tried to bring back the income tax, but a conservative Supreme Court declared the income tax unconstitutional. That didn't stop the government, however, and in 1909 President Taft suggested a Constitutional Amendment (16th Amendment) as a way of circumventing the recalcitrant Supreme Court. The amendment passed. The first rates under the new law imposed 1% on taxable income above $3,000 for individuals or

$4,000 for couples and the rates rose to 7% for incomes over $500,000. During WWI rates rose again, reaching 77% by War's end. The rates dropped during the prosperous '20s, but were raised in an effort to make up for deficits during the Depression. During WWII the top rate hit a whopping 91%. After the War rates came down, only to rise during the Korean War. The rest of tax history can be seen in the chart which appeared in the last Letter. Politicians have always opted for a progressive income tax in an effort to level income among Americans. By the '80s, the income tax became so complex, so crazy, that 40% of the population used professionals to compute their tax. As you know, by the '90s two things occurred -- the income tax under Clinton became crazier and even more complex.

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If you need Zantac to survive (it's the most prescribed drug in America), you might want to move to San Diego. Zantac costs roughly $1.40 per tablet in the US. Down in Tijuana (40 minutes from here) you can buy all the Zantac you want for $0.41 a tablet. Tijuana now has a pharmacy on every other block. They also have a steady stream of US customers (you can bring back to the US a 90-day supply of any drug, the price of the drug doesn't matter).

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There's no question about it, home sales are rising dramatically. One reason may be buyers jumping the gun before mortgage rates rise (rates are already up 1%). Here are some comments about various area sales from *USA Today:* "Atlanta upscale sales increased; Boston condo market rebounds; Chicago sales volume up 7% over a year ago; Dallas prices up 3% to 5% over a year ago; Denver demand exceeds supply; Des Moines buyers flood market; Kansas City buyers everywhere; LA prices still falling; Miami March sales brisk; NY snow chills sales; Phoenix best-ever sales; Reno market heats up; Salt Lake City homes in short supply; San Diego February sales soar, building permits up 61%; Seattle sales take off; Washington DC intense buyers' market."

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Gambling in America: In 1992 legal betting in the US hit $330 billion, up 1,800% since 1976. The retail price of a slot machine is $5,000, and it takes an average of only 20 days in Las Vegas to recoup the original cost of a slot. Only two states allow no gambling of any kind, Utah and Hawaii. Indian tribes now operate 225 casinos or high-stakes bingo halls. How good are your odds for winning? House edge for craps -- 0.6% to 1.4%; for roulette -- 5.2%; for "21" -- 2% to 10%; slots -- 2% to 15%; big wheel -- 15%; keno -- about 20%. The casinos want one thing -- they want you to play over time, since if you play long enough the casino's gambling odds will click in, and you're almost sure to lose. In an effort to keep you playing, the casinos offer free drinks, comfortable seats, special soothing lights, no windows, no clocks, special scents in the air, dealers passing out chips of lowest denomination to keep you playing, deep dark comforting colors on the slots, etc. In the past, there were two main forces stacked up against gambling, the church and the government. Today both are involved in gambling. Russell comment: Gambling is the ultimate sucker's game. While spending your hard-earned money you get no entertainment, you get no product, and you learn nothing. Finally, you're stupidly playing against mathematical odds, and if you keep playing you're almost guaranteed to lose.

Newer subscribers may wonder why I write a good deal about gambling. The truth, I don't like gambling, and I hate to see people throw their hard-earned money down the drain. Furthermore, I think gambling is insidious in that it preys on people's greed and their desire to get something for nothing. Finally, gambling preys on people's ignorance or stupidity, since gambling odds are always stacked against the player -- but the average gambler seems incapable of understanding that.

In Dow Theory Letters I try to teach people how to invest, how to speculate, and hopefully, how to cut the gambling out of their money management.

* *

"Thoughts to get you through almost any crisis": (1) By the time you can make ends meet, they move the ends. (2) You can't tell which way the train went by looking at the track. (3) There is absolutely no substitute for a genuine lack of preparation. (4) The facts, though interesting, are irrelevant. (5) Friends may come and go but enemies accumulate. (6) If you think there is good in everybody, you haven't met everybody. (7) A friend in need is a pain in the butt.

* *

Julian Snyder is back in action, starting *The Armageddon Letter* (PO Box 58, 7500 St. Moritz, Switzerland). Here's what Julian sees in the future: "(1) Another stock market crash. (2) A bear market in bonds. (3) A collapse of the world currency (foreign exchange system). (4) An increase in US defense spending and federal deficit. (5) A commodities boom. (6) A massive return in price inflation and a new stampede into gold and silver. (7) WORLD WAR III." Sounds a bit grim, right -- the only thing is that Julian has a long record of being correct.

* *

US foreign policy: Botched on Iraq in that Saddam is still alive and killing; botched on Somalia in that American lives were lost and nothing was accomplished; botched on Haiti in that US was chased out (incredibly) by a rag-tag band of cutthroats; botched on Bosnia in that we watched while genocide was, and still is, going on; botched on Japan in that we're pressuring them at the wrong time and got little for it; botched on China in that Christopher was sent home with his tail between his legs.

GOLD: I have five kids. My two youngest are Ryan, age 16, and Lauren, age 13. With the national debt rising at the rate of around $350 billion a year, I wonder what the US' finances will look like when these kids are in their 30s or 40s. Frankly, it's a very unpleasant picture. And I worry about it.

As far as the national debt is concerned, by 2025 the debt will be huge, accompanied by a massive drop in the purchasing power of the dollar. But wait, I wonder, could the US somehow cancel or even renege on the national debt by the year 2025? Or will gold have been brought back into the system at some super-high price (maybe $5,000)? Or will the dollar (of dire necessity) be backed by gold? Obviously, no one can possibly know the answer to these questions, but we do know that the power of compounding (of the debt) will force massive changes. You simply cannot have a national debt that is rising at the rate of a billion dollars a day with accompanying average interest rates of 4-5% (which are now rising) -- and have a stable economy or a stable currency. It just can't happen.

I've given this whole problem a lot of thought, and I've come to this conclusion. In the long run, the safest way to face the future is with a business of your own, a business that can adjust to the times -- plus ownership of gold.

Debt is the monster that will ultimately slay the good fairy which we call prosperity. Debt is the Frankenstein that doesn't go away when economies turn down. Debt is the ultimate economy-killer, since debt must be paid down or paid off, or you pay the penalty -- bankruptcy.

Since the dollar is a "fantasy currency," manufactured by the US government and a product of debt, it absolutely cannot hold up over any considerable length of time. In 1971, with the collapse of Bretton Woods, the dollar's last domestic tie with gold was severed. In 1974 Nixon closed the gold window and at that point even foreign creditors' claim on US gold was ended.

In view of the above, why foreigners still continue to hold dollars or dollar denominated securities is a testament to habit and to mindless confidence (ironically, the current new generation of central bankers actually appear to believe their own blather about the value of paper and computer-entry currencies -- and they've been selling gold for paper).

Today, everything is short-term, and no knowledgeable person thinks in terms of holding dollars for the next 10 or 20 years. No, knowledgeable people hold dollars because dollars are a medium of exchange and for no other reason.

Entitlements are eating up the US alive. Today we've got a president who wants ever more government entitlements and ever

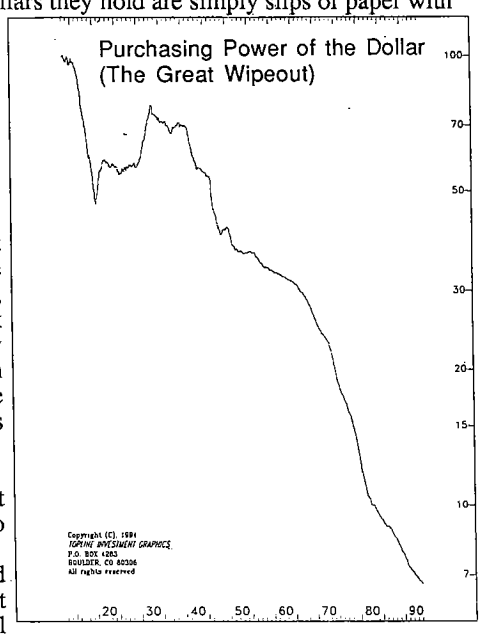
more government regulations and just more government. The latest figures show that the national debt (which monitors the true deficit) rose by $337 billion over the last 12 months. Is Clinton or Congress cutting the deficit or even the rate of increase in the deficit? It's all propaganda and econo-baloney -- the actual statistics say it isn't happening.

This whole problem of unstable currencies, currencies that lose purchasing power over time, has resulted in a world where people feel pressured to speculate and gamble. If a person receives his earnings in a stable currency, he is inclined to save, collect his interest, compound his assets, and grow old and prosperous without ever having to speculate. But in today's world of wildly fluctuating fiat currencies, the pressure is to gamble in an attempt to "beat the devil," the devil being loss of purchasing power. All this has given way to the rapid spread of gambling in the US, the rise of crime globally, and the birth of a totally new class of speculative (or hedging) instruments -- derivatives.

Ironically, the truly rich are the ones who are most interested in gold. Let's pose an example. Say you have $10 million. You're a multi-millionaire. And with that kind of money, you really only need say three or four million to keep up your life style. Do you have any worries? Everybody's got to have something to worry about, and millionaires worry about losing their life-style and their purchasing power. They worry (as you and I do) that someday there'll be another depression or a super-radical (Clinton-type) government or a global flight from all dollar-denominated securities.

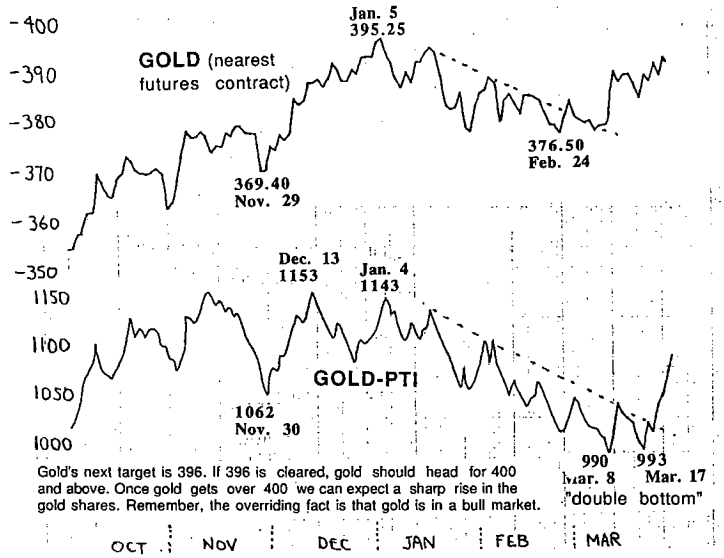
So as a millionaire, what do you do? You put a million dollars in gold coins and jewelry, and maybe keep your treasures in some secret place (possibly a Swiss bank or even a vault somewhere in the US). What about the loss of interest on your gold coins and jewelry? Forget it -- you forget the interest for the same reason that you don't worry about the interest lost when you pay the premiums on your life insurance premium. Since you want the safety of owning the only real money, you accept the penalty of lost interest. And that's the way it is with "big money," and that's why hoards of gold and jewelry remain hidden in vaults around the world.

So think about it -- it's a gift. You can still trade your "fantasy dollars" for real money, tangible money, and, of course, I'm talking about gold. It's really incredible that people are still avoiding gold while keeping their wealth in government-manufactured fiat paper. Why do they do it? The fact is that people don't understand that gold is tangible wealth, and they don't understand that the dollars they hold are simply slips of paper with the only thing behind them being the US government's edict that you must accept these dollars as "payment for all debts."



My firm belief is that two or three or five years from now, people will look back and wonder why they ever held dollars when they could legally have swapped those dollars for gold.

But I've got to admit -- it's a testament to government propaganda and human stupidity that the dollar is still accepted as a store of value. Study this chart from John Carder, the Colorado computer-maven. It's the whole dollar story brought down to one easy-to-read chart.



Next, let's turn to the daily chart of gold and the Gold-PTI. As noted in the last Letter, we now have a bullish downside non-confirmation. Please follow this -- the Nov. 29 low for gold was 369.40, while the Nov. 30 low for the G-PTI was 1062. Despite the ensuing steady decline in the G-PTI to a Mar. 8 low of 990, gold never dropped below its Nov. 29 low.

Next, the G-PTI formed a "double bottom" in the 990 area (early March) and in mid-March both gold and the G-PTI reversed declining trendlines. On March 23 the G-PTI rallied bullishly above two preceding peaks.

It would appear that bottoms are now in place in both gold and the G-PTI. If so, we should (in due time) see gold attacking the 400 level and the gold stocks attacking their December-January highs.

LATE NOTES: A few additional words about the Utilities. This is the "conservative average," so it is hardly comforting to see the Utilties acting this badly and leading the market down. Remember, it's the conservative money or let's call it the investment money that sets the major trend of the market. Which is why Wall Street veterans feel a tightening in their throat when the Utilities head down in earnest as they have been doing ever since last September.

Here's another thing that really bothers me about the stock market. It's that very few people appear to be taking this downturn seriously. Sure, leading analysts talk about a 10% or maybe even a 15% correction, but with the exception of Bob Prechter (who takes the downturn very seriously -- he believes we're at the end of an era) nobody is really talking about a major or primary bear market (excuse me, Joe Granville has been bearish too).

But the fact is that we've had an unprecedented three years of overvaluation in stocks. We've seen an almost ridiculous proliferation of closed-end and mutual funds. We've had an absolutely massive entrance of the public into the stock and bond markets. We've seen the Fed flood the banks with reserves in an effort to reflate the economy. And now, as stocks head down, everybody who is at all bearish is talking about "maybe this is the long-awaited correction."

Maybe this is merely a correction, but believe me, that's just a guess. When stocks turn down from an ancient bull market (this bull market began back in 1974), when stocks turn down following three years of extreme overvaluation, when stocks turn down following many months of the highest volume ever recorded on the NYSE -- you just don't know what lies ahead.

And that's the reason why I've asked my subscribers to be out of all stocks and into cash, T-bills, money market funds and gold (and, of course, gold stocks).

NEXT MAILING: April 13, 1994

RICHARD RUSSELL'S DOW THEORY LETTERS INCORPORATED

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SPECIAL ONE PAGE LETTER. Sorry about the small print, but I had to do it to get what I wanted in to this Letter and to get this Letter out fast.

I'LL START by saying that, "Yes, this is a primary bear market." I take the violating of the 3809.23 Dow level along with the collapsing Transportation Average as the Dow Theory signal for a primary bear market. The Dow Theory bear signal was confirmed on March 30 when my Primary Trend Index finally broke below its 89-day moving average.

"In a bear market, the person who loses the least is the winner." Why do I say that? I say it because in a true primary bear market the price of almost everything goes down -- houses, stocks, bonds, collectibles, farm land, commodities, you name it. Is this fated to be a "true primary bear market?" I suspect it is.

THE BEAR: With total US debt of all kinds (private, corporate, governmental) at a record high level of **$15.3 trillion,** you have to ask yourself, "What's the least desirable thing that could possibly occur in America?" The answer -- the least desirable event would be a primary bear market. A bear market would impact on every area of the US from corporate profits to employment to ability of Americans to save to the public's desire to buy mutual funds.

Bear markets tend to strike at a time when the sky looks brightest but when the nation is least prepared for adversity. Ironically, bear markets arrive when the consensus among both amateurs and professionals is that the advent of a primary bear market is "well nigh impossible."

THE FED, THE PUBLIC AND THE FUNDS: Over the last few years the Fed has driven interest rates down to their lowest levels in decades. The banks (many of them insolvent at the time) saw what the Fed was doing, and they loaded up on bonds. The steady trend of low interest rates and rising bonds allowed the banks to reliquefy. Thus, the Fed's largesse saved many of the banks from insolvency.

Unfortunately, the low, low interest rates killed America's savers (the savers were used to CD yields of 8% or 9%). Ah, but the savers knew what to do. They simply dumped their 3% yielding CDs, and moved into mutual funds, which were yielding an even lower 1.5%. Of course, the mutual funds were supposed to go up (which they did until recently), and the profits in the funds were supposed to make up for the miserable returns on the CDs.

Then, more recently, America's mutual fund buyers heard about the magic of overseas stocks. So the fund buyers sold their domestic funds and poured the money into the international funds, funds yielding around 0.6% on average. The overseas funds were supposed to generate even fatter profits than the 1.5% yielding domestic mutual funds. That was the theory.

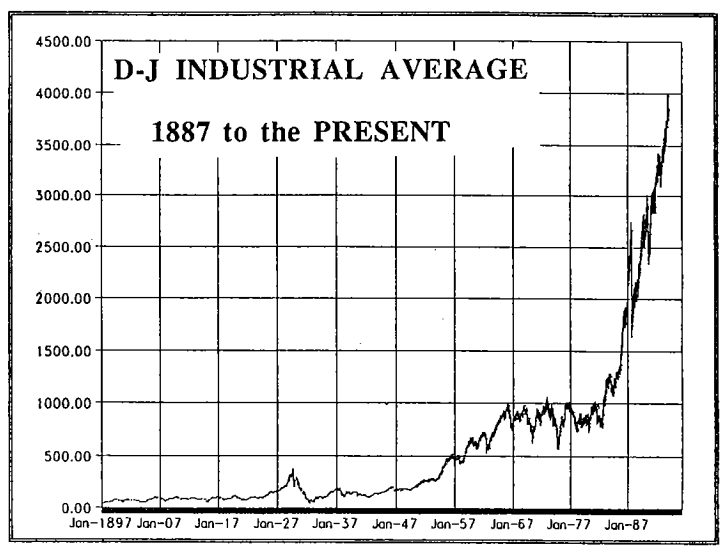
Meanwhile, the big banks saw their deposits wafting away. They saw all that CD money going to mutual funds, And, of course, they didn't like that. So the banks got an idea -- they would start their own mutual funds. In this way the banks offered the public the golden chance to sell their CDs without even having to transfer their money to another institution -- gosh, a person could cash in his bank CD and just transfer the money to one of the bank's own mutual fund.

All this was predicated on one simple thesis -- the stock markets of the world would continue going up and up.

Will the fund buyers be right? I doubt it. At any rate, I'm going to show you one chart that would really bother me if I were a bull. It's a simple arithmetic chart depicting the entire history of the Dow. And here's what bothers me. It's the breakout above the 1000 level, and the "stilt formation" which resulted. From 1983 to the present we have an almost straight up formation, with only two corrections showing.

And I have this thought -- is the stilt in the process of collapsing? If the Dow was to fall halfway back to the breakout point, in other words, halfway back to 1000, the Dow would decline to the 2500 level. If the 2500 level could not hold, it's conceivable that the Dow could smash all the way back to major support at the 1000 level.

Is this the worst case scenario? No, Bob Prechter has an even worse one, but the scenario I've outlined above should hold us for a while. Remember, what I've written above is theoretical, it doesn't have to happen (the odds are always against a market disaster). But in the money business, I always prefer to outline the best and worst scenarios. The best will take care of itself, it's the worst that we have to guard against. In closing the operative thought is this -- **"it's a bear market."**



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